

Economic & Social Committee

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Impact of protectionism and discussing free trade

<https://money.cnn.com/2018/03/02/news/economy/steel-industry-statistics-us-china-canada/index.html>

<https://www.metalbulletin.com/Article/3825924/CHINA-STEEL-SPOTLIGHT-Stricter-winter-production-cuts-to-support-domestic-prices.html>

Protectionism has recently hit the spotlight in the Western media, with the trade war between the US and China. This has been motivated most notably by President Trump's aim to increase US employment in industries, which have suffered from overseas competition. For example, the US steel industry has been in decline, as it is less price competitive than China's steel industry. China, as of 2017 produced a total of 49% of the world's steel supply. In an attempt to reinvigorate the US steel industry, tariffs were imposed on Chinese steel imports to encourage the purchase of US steel by US companies, thus protecting jobs - a **protectionist** policy.

The main economic argument against protectionism is that it is economically inefficient. This is because, under completely free trade and free market conditions, the countries that are most proficient at producing goods, such as the Chinese producing steel, will specialise in producing it. This means other countries that are comparatively more proficient at producing other goods will specialise in that. If this were the case around the entire world, we would live in a situation where the maximum output is produced, given the factors of production available.

This utopian idea will not always happen in a capitalist world economy, as self-interest can encourage countries to increase the prices of their products in an effort to increase revenue. In a free market, this can be done by restricting production, causing prices to go up as a result of a more scarce commodity going to those most willing and able to pay. China has been known to do exactly this; in August 2018, HRC prices in east China increased to 4,310-4,320 yuan per ton on August 7 from 4,280-4,290 yuan per tonne on August 2. This was a reaction to the announcement that they were extending winter production cuts by two months, now from 1st November 2018 to 31st November 2019.

Organisations such as the World Trade Organisation (WTO) aim to encourage free trade, through facilitating Free Trade Agreements (FTAs). When there is free trade, consumers in the respective countries are able to purchase more of the goods provided, as a tariff isn't

included in the price, which means exports are boosted, which in turn boosts economic growth. Therefore, if there is amicable free trade, everybody benefits, including consumers.

The only drawback to free trade, in which only the most productively efficient producers succeed, is infant industries often find it difficult to succeed, as they are yet to increase output to the point at which they can make a profit. When this occurs, protectionism is arguably the best way to help the industry to succeed in the long-run, until it has grown to the point of being able to support itself.

Negative effects of Protectionism

-Less advantageous for consumers: protectionism can lead to higher prices and restricted consumer choice. The effects of a quota are similar to those of a tariff – prices rise because an artificial scarcity of a product is created.

Extra costs for exporters: for goods that are produced globally, high tariffs and other barriers on imports act as a tax on exports, damaging economies, and jobs, rather than protecting them.

Regressive effect on the distribution of income: higher prices from tariffs hit those on lower incomes hardest because the tariffs (e.g. on foodstuffs, tobacco, and clothing) fall on products on which lower-income families often spend a higher share of their income.

Production inefficiencies: firms that are protected from competition have little incentive to reduce their production costs. This can lead to inefficiency and higher average costs.

Trade wars: there is the danger that one country imposing import controls will lead to retaliatory action by another, leading to a decrease in the volume of world trade. Retaliatory actions increase the costs of importing new technologies, affecting LRAS.

Negative multiplier effects: if one country imposes trade restrictions on another, the resultant decrease in trade will have a negative multiplier effect, affecting many more countries because exports are an injection of demand into the global circular flow of income.

Benefits of free trade

Theory of Comparative advantage: this explains that by specialising in goods where countries have a lower opportunity cost, there can be an increase in economic welfare for all countries. Free trade enables countries to specialise in those goods where they have a comparative advantage.

Increased Exports: as well as benefits for consumers importing goods, firms exporting goods where the UK has a comparative advantage will also see a significant improvement in economic welfare. Lower tariffs on UK exports will enable a higher quantity of exports, boosting UK jobs and economic growth.

Increased competition: with more trade, domestic firms will face more competition from abroad. Therefore, there will be more incentives to cut costs and increase efficiency. It may prevent domestic monopolies from charging too high prices.

Impact of climate change

<https://phys.org/news/2018-07-climate-affect-economic-growth-poorest.html>

<https://www.global-economic-symposium.org/knowledgebase/the-global-environment/climate-change-and-economic-development>

<https://www.schroders.com/nl/sysglobalassets/digital/us/pdfs/the-impact-of-climate-change.pdf>

A key finding of research by Phys.org is that the poorer countries in the world will bear the brunt of climate change economically - 'the world's 100 poorest countries will be 5% worse off by the end of the century than they would have been without climate change.' The primary reason for this is poorer countries generally have agriculture as a comparatively larger contributor to GDP, which is an industry that is obviously greatly impacted by environmental issues such as desertification. Such countries are less well-equipped to adapt to rising temperatures.

The World Bank estimates it will cost developing countries \$145-175 billion to mitigate the effects of climate change and \$30-100 billion to adapt their economies annually by 2030. The total international funding for these two issues combined is \$9 billion. The collective burden lies on the world economy as a whole to deal with these two hurdles, so a collective organisation such as the UN could establish a common way to help, either through funding or direct implementation of new technology, thereby sharing the burden of climate change equally.

Not only will climate change affect economic growth, it will also affect inflation, particularly, again, in poorer countries. Changes in temperatures make it more difficult to produce agricultural goods, increasing costs of production, which will force up prices of agricultural goods, causing inflation in developing countries, which generally makes countries weaker as their goods become less price competitive. In the long run, increased costs of agricultural goods would also increase inflation in developed countries. As agricultural goods are often at the beginning of the production chain, it would increase general costs of production, therefore increasing costs of goods produced in developed countries.

Social development in post-conflict areas

Armed conflict leads to large numbers of people throughout the world losing their lives. This is clear when looking at the current civil war in Syria that according to a Syrian Observatory for Human Rights (SOHR) has resulted in staggering loss of life, estimated at near 600,000, with that number growing day by day. Other conflicts, in Yemen and the continued conflicts in Afghanistan and Iraq for example, further emphasise the current prevalence of conflicts around the world. These wars do not just lead to the loss of life, they also bring with them socio-economic and political consequences. It is evident that the number of inter-state conflicts worldwide has declined following the conclusion of the Cold War; however, the intra-state conflicts currently affecting the world are mainly focussed in low-income LEDCs which further leads to economic decline and greater suffering.

This report has been tasked with evaluating how countries can rebuild their foundations and establish the conditions for self sufficiency and economic growth following the immediate aftermath of violent conflict. The crux of the debate are over the following issues:

- what kinds of policies are needed to get the development process restarted?
- what must the national authorities strive for and what actions must they take?
- how can the international community be most helpful?

This report focuses heavily on the economic and social aspects of recovery because a working and evolving economy is a vital requirement for human development, as well as, development in post-conflict areas. The ultimate aim is to establish the conditions for self-sustaining economic growth and human development while addressing the major risk factors for conflict recurrence. Gender equality must be reviewed in the recovery phase so as to ensure equal access to opportunities regardless of gender.

Some of the major challenges that people and countries face in the aftermath of war include reconstructing social and economic infrastructure, generating employment and livelihoods, reintegrating ex-combatants, reconstituting institutions and social capital, and mobilizing financing for recovery.

The key message is to recognize that minimizing the risk of conflict recurrence is a critical priority in recovery efforts and must not be overlooked, and to do this needs a basic understanding of the factors that may have contributed to the conflict in the first place.

